NSPS

Managing Compensation under NSPS

A Guide for Managers and Supervisors

March 2007

Managing Compensation Under NSPS – A Guide for Managers and Supervisors is a handbook for managers, supervisors and advisors who provide compensation direction, management and guidance. This guide is not a policy document. Examples are for illustration purposes only and are intentionally non-prescriptive.

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Laying the Foundation

Under NSPS, Components and organizations are given great flexibility to compensate their workforce fairly and appropriately reward employees for their contributions. In turn, employees, through their performance, are able to affect their compensation.

Purpose of This Guide

Managing Compensation Under NSPS—A Guide for Managers and Supervisors serves as a resource for those involved in applying and administering the National Security Personnel System's (NSPS) compensation management flexibilities and authorities. The guide discusses the key compensation concepts that managers and supervisors need to understand to determine appropriate policy, create and maintain their organization's business rules and pay pool processes, and make sound judgments regarding employee pay. It is also intended to help organizations ensure that compensation decisions are financially sound and based on business-case needs and well thought out rationale.

This guide is a more advanced look at compensation management and complements the Managers' Interim Guidance for Establishing Pay for Employees in NSPS. Specifically, it presents the basics of establishing a compensation strategy and managing compensation at the organizational level. It also addresses performance-based pay, which was not included in the previous guidance.

> *Our employees are our greatest assets – the only assets that appreciate over time. We owe it to our employees to compensate them fairly and appropriately for the vital work they contribute to DoD achieving its mission.*
>
> *Mary E. Lacey*
> *Program Executive Officer, NSPS*

An organization's business and compensation environments, as depicted in Figure 1, are complex. Compensation systems are integral to an organization's efforts to attract, retain, and reward qualified employees and are potentially powerful tools to influence behavior and improve performance. Under NSPS, the compensation system is flexible and delegates many compensation decisions to managers and supervisors. Compensation decisions should be based on good

business judgment and guided by an organization's business environment, including an organization's strategic goals, culture, labor market conditions, employee motivational needs, internal and external equity, human capital strategy and financial requirements and policies.

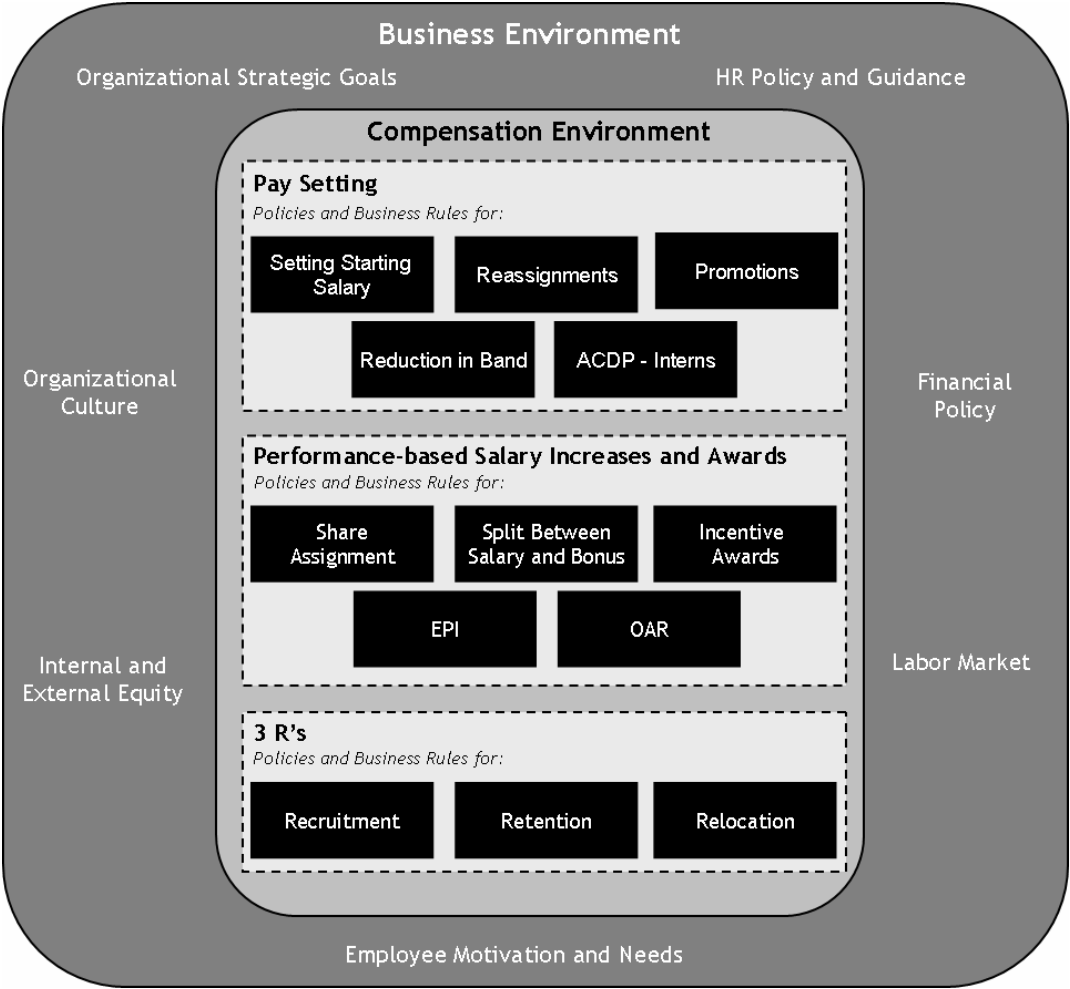*Figure 1 – Business and Compensation Environments*

This guide provides an overview of roles and responsibilities and then offers a general discussion on how Components, organizations, managers, and supervisors may utilize the flexibilities afforded under NSPS to set pay and reward performance. Examples are woven into the discussion to illustrate how to apply the flexibilities to various scenarios.

Important Terms

Before getting started, it is important for you to understand the compensation terminology used in this guide. Understanding these terms will assist you in creating and communicating your organization's compensation plan.

Compensation Philosophy – Describes the guiding factors for the administration of a compensation program. The philosophy should ensure that a compensation program aligns with the organization's mission, strategic initiatives and objectives, and desired employee behaviors and/or organizational culture.

Control Points – A tool to help manage compensation and employees' salary progression through the pay bands.

Disparate Impact – Occurs when employment decisions, which on the surface appear neutral, work to the disadvantage of protected class members. Intent to discriminate is not necessary to this type of employment discrimination.

Disparate Treatment – Occurs when protected class members are treated differently from others. Intent to discriminate is a necessary element in this type of employment discrimination and may be shown by direct evidence or inferentially by statistical, anecdotal and/or comparative evidence.

External Equity – The measure of an organization's pay scales (pay levels or the going market rate) compared to the rate of other similar organizations.

Human Capital Strategy – A strategy that promotes alignment of human capital with an organization's mission, goals, and objectives through analysis, planning, investment, measurement, and management programs.

Internal Equity – The condition in which similarly situated employees are treated in a similar manner; perceived fairness of the pay structure that directs an employer to set salaries that correspond to each job's relative value to the organization.

Job Pricing/Market Point – The practice of establishing salaries for jobs within the organization, usually combining judgments regarding external market value and internal job value/salary equity considerations.

Market Pricing/Range – A policy that sets the salary to be paid for a job or occupational code relative to the organization's estimate in the external market for that job or occupational code.

Market Strategy – Addresses "how competitive" an organization needs to be within its market to acquire and retain the talent required to carry out its mission and strategic initiatives successfully. In acquiring and retaining talent, organizations adopt one of the following three competitive positions:

- **Lags** – Pay is less than the market point and in the lower end of the market range.

- **Meets** – Pay is centered around the market point and in the middle of the market range. Most organizations adopt a "meets" compensation strategy.

- **Leads** – Pay is greater than the market point and in the higher end of the market range.

Pay Setting/Administration – It is important to pay employees competitively, equitably, and within the fiscal constraints of the organization. Proper pay setting requires applying principles of strategic compensation administration and an awareness and compliance with applicable laws and regulations, for example Merit System Principles and Equal Employment Opportunity (EEO) issues, such as disparate impact or treatment (see Appendix A – Summary of Protections for Federal Employees for additional considerations). Pay setting/administration involves consideration of the following:

- Local conditions that affect recruiting, motivating, and retaining qualified employees

- Equitable treatment of employees

- Effect of pay actions on other employees

- The employee's qualifications and performance history for the position being filled

NSPS Compensation Management—Roles and Responsibilities

NSPS increases flexibilities for managers and supervisors to manage the workforce effectively. The basic tenet of these compensation flexibilities is that valued performers should be compensated fairly and appropriately and that compensation decisions are based on sound financial and management decisions that help organizations achieve their priorities.

Department of Defense (DoD)

As part of its enterprise-wide responsibility, the Department:

- Establishes and promulgates overarching NSPS policies, including issuing guidance, as appropriate.

- Aligns the NSPS compensation philosophy and overall market strategy with DoD's human capital strategy.

- Determines the relevant markets and the overall competitive position through research and analysis activities.

- Establishes pay band minimum and maximum rates and Local Market Supplements (LMS).

In the aggregate, DoD's current competitive position is strong, and its primary market is with non-NSPS organizations and other Federal agencies. Also, DoD monitors the private-sector market conditions and, if appropriate, revises these determinations to ensure the Department maintains its competitive posture.

Over time, DoD will look to external sources, such as market data, to help inform decision making regarding setting salary ranges and LMS. In the short term, DoD will continue to rely on data collected and analyzed through the Office of Personnel Management (OPM) and the Department of Labor to set salary ranges and LMS.

Components

As part of their purview and responsibilities, Components assist their commands and activities in answering questions such as:

- What do we want our compensation systems to support and accomplish? Do the compensation systems support our mission-driven human capital strategic plan?

- What is our market, or with whom do we compete for talent? Does our market change for different positions, locations, or levels in the organization?

- What is our desired competitive position in our market? Can we provide comparable value for our desired positions?

- Are we losing quality employees because of our current compensation practices or position in the market? Can we accomplish the work with a lesser skill set?

- How will pay decisions be made in our Component and by whom? What pay decisions will be delegated to which organizational levels?

- What skills and talents do we need for today and tomorrow?

Organizations

Based on these frameworks, organizations develop compensation strategies that offer guidance and decision-making tools to managers and supervisors. These strategies are based on answers to many of the same questions that are addressed at the Component level. In addition, organizations may ask the following:

- What are the skills and talents that employees possess worth to the organization and in the market?

- What skills and talents do we need for today and tomorrow?

- How do we appropriately compensate employees given our budget and business environment?

- How closely do we want/need to monitor salary progression?

- How do we want to balance the rewards for individual performance with team and organizational performance and accomplishment?

- What is the role of non-monetary types of recognition in our organization?

- What is the desired mix of annual salary increases and bonuses for employees? Is it the same for every employee group in our organization?

Managers and Supervisors

The compensation strategies and guidance provide the direction managers and supervisors need to make sound, business-based compensation decisions to ensure that they are attracting, retaining, and rewarding their employees.

Employees

Employees are empowered to influence their compensation by making meaningful and valued contributions to their organizations, and they expect to be compensated appropriately for these contributions.

Establishing Compensation Management Teams

Under NSPS, effective compensation management requires multi-level participation and involvement with leaders, managers, and strategic partners sharing in the process. NSPS compensation strategic partners include the business, financial management, human resources, legal, and EEO advisors who support decision makers. Establishing a process for ongoing dialogue among these partners is critical to exercising and managing the NSPS compensation flexibilities effectively. By collaborating, sound compensation strategies may be developed to ensure that managers and supervisors make fact-based compensation decisions. Partners can assist in developing pay setting guidance, identifying potential internal and external equity issues, and assisting in developing recruitment strategies.

Figure 2 – Compensation Team illustrates how various partners must work together to ensure that compensation decisions are market-driven, fair, and equitable.

Figure 2 – Compensation Team

Understanding Compensation Management Principles Under NSPS

Ensuring that compensation is used strategically to attract, retain, and reward the workforce is a leadership responsibility.

Creating a Compensation Management Strategy

In developing a compensation strategy, a number of variables come into play. Components will determine the level and type of discretion that organizations, managers, and supervisors have in developing and executing their own compensation strategies.

In this section, we explore the various considerations that influence compensation decision-making. In the end, an effective strategy provides organizations with a roadmap and tools necessary to ensure that they are able to attract, retain, and reward employees who can capably perform the mission at a salary range that is competitive and within fiscal bounds.

Key Considerations

Considerations regarding: (1) establishing a market strategy, (2) using salary ranges in the NSPS Pay Banding Structure, and (3) managing salary progression are covered in the next sections.

Establishing a Market Strategy

Establishing a market strategy is a strategic process and requires an evaluation of many variables. The first step is to determine the market points that apply to your organization. A market point is a benchmark salary for jobs within your organization at a given level that is usually determined by combining judgments regarding external market value (what your competitors are paying for similar positions) and your existing internal salaries. Components have discretion to determine how market points are determined and used.

Market points are used for two main reasons:

1. **Setting Pay** – Market points help set pay within an organization. Pay may be set below the market (lag), at market (meet), or above market (lead).

2. **Managing Performance-Based Compensation Decisions** – Market points help determine the appropriate salary range for employees holding similar positions.

Table 1 – Factors for Determining a Market Strategy illustrates some of the high-level considerations used in determining a market strategy.

Table 1 - Factors for Determining a Market Strategy			
Factors	Lags (less than the market point)	Meets (centered around the market point)	Leads (greater than the market point)
Labor market availability of suitably qualified candidates	Supplies are plentiful in the employer's market	Supplies are sufficient to meet needs	Supplies are restricted
Stability of labor market	Secure and highly sought	Generally steady and normal	Fluctuations are periodic, or labor market in decline
Annual attrition	Very low turnover	Routine - modest turnover	Greater than routine—employees targeted by competitors; mission in jeopardy
Number of employees on-hand versus required	An excess capacity exists	Proper mix is evident between requirements and population	A shortage of employees is noticeable; employees are overburdened; mission in jeopardy

Components and organizations must ensure that they are funded adequately to support compensation decisions over time. Determining market points and deciding where organizations set and manage pay is a strategic policy decision that has short- and long-term affects. Working collaboratively with the financial management and human resources community to ensure that appropriate considerations are weighed is critical. Judgments made to compensate employees significantly above or below the market should be based on sound business rules. Decisions need to be aligned with an organization's strategic goals, culture, labor market conditions, employee motivational needs, internal and external equity, human capital strategy, and financial requirements and policies.

Figure 3 – Notional Salary Range within an NSPS Pay Band illustrates a salary range within an NSPS pay band with a defined market point and associated lag, meet, and lead areas. The YA-3 pay band range is set from $75,879 to $127,031. An organization has identified the salary range for its branch chief contract specialists to be $80,000 to $102,000 with a market point of $91,000. Salaries less

than $91,000 are considered to lag the market, while salaries greater than $91,000 lead the market. Notice that the lag, meet, and lead areas are typically overlapping ranges, not precise values.
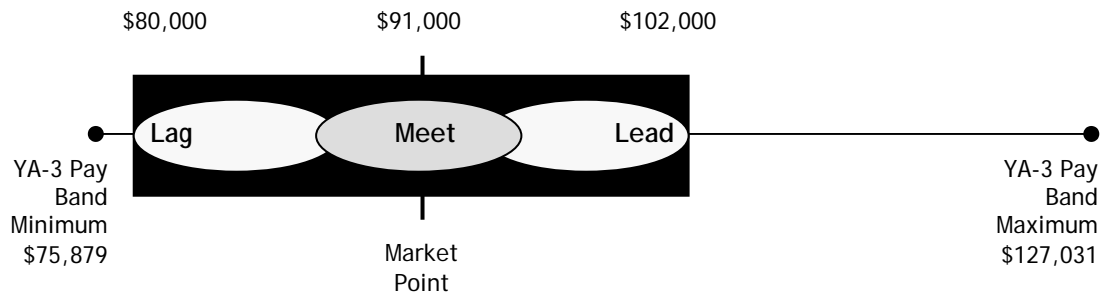
Figure 3 – Notional Salary Range within an NSPS Pay Band with Defined Market Point and Lag, Meet, and Lead Areas

Using Salary Ranges within the NSPS Pay Banding Structure

NSPS pay bands are structured so that multiple occupational codes and positions are contained within any given band. This flexibility makes it possible to manage a group of occupations and positions with different market values within the same band differently from one occupational code to the next.

Organizations face the challenge of identifying appropriate salary ranges for their positions. In many cases, setting the range does not encompass the entire band. For example, using 2007 rate ranges, the pay band range for YA-2 spans from $38,824 to $87,039. Depending on an organization's structure and its positions within that band, the average salary for its YA-2 employees may be in the low, middle, or high section of the pay band. The salaries appear in Table 2 – Positions and Salaries below:

Table 2 - Positions and Salaries		
	NSPS Position	NSPS Base Salary
Employee 1	YA-2	$75,879
Employee 2	YA-2	$87,039
Employee 3	YA-2	$87,039
Employee 4	YA-2	$69,183
Employee 5	YA-2	$71,415
Employee 6	YA-2	$65,686
Employee 7	YA-2	$73,194
Average Base Salary		$75,633

The average base salary is $75,633, which is near the maximum of the pay band. Does this organization have a compensation issue? Is the average salary for its contract specialists too high? Not necessarily.

The reality is that salary range may be defined, interpreted, and applied in a variety of ways depending on what factors are assessed. Generally, as an organization looks at the responsibilities of various positions, it becomes

appropriate to use a subsection of the broad NSPS pay bands as the suitable salary range for a particular set of positions. This subset can be determined based on many factors including existing salary levels, occupation, complexity of work, scope and duties required by the positions, LMS, mission criticality, difficulty filling positions, and comparable market salaries.

Figure 4 – Notional Salary Ranges within a Pay Band illustrates the appropriate salary range within the NSPS pay band. Organizations can use their own internal array of employee salaries as a starting point for determining an appropriate subset in which to manage its compensation. However, the level at which this information is analyzed is important because within a large organization, salary levels may vary greatly for similar types of positions.
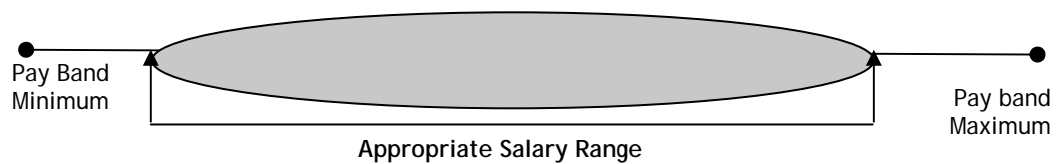
Figure 4 – Notional Salary Ranges within a Pay Band

For example, Table 3 – Salary Tables for Comparison, on page 13, considers two groups of analysts who support the same major command. Group A supports the major command's headquarters in Dayton, OH, while group B supports an activity with less scope of responsibility located in Albuquerque, NM. Based upon existing salaries, the appropriate subset of the pay band used to manage pay strategically for group A may be quite different for group B. These appropriate salary ranges are illustrated in Figure 5 on page 13.

Table 3 - Salary Tables for Comparison		
Group A (Major Command)	NSPS Position	NSPS Base Salary
Employee 1	YA-2	$75,879
Employee 2	YA-2	$87,039
Employee 3	YA-2	$87,039
Employee 4	YA-2	$69,183
Employee 5	YA-2	$71,415
Employee 6	YA-2	$65,686
Employee 7	YA-2	$73,194
Average Base Salary		$75,633
Group B (Activity)	NSPS Position	NSPS Base Salary
Employee 1	YA-2	$71,415
Employee 2	YA-2	$59,502
Employee 3	YA-2	$61,068
Employee 4	YA-2	$49,176
Employee 5	YA-2	$49,176
Employee 6	YA-2	$42,706
Average Base Salary		$55,507
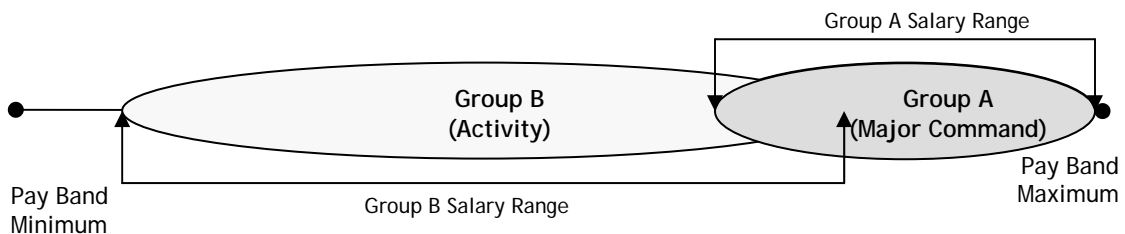
Figure 5 – Notional Salary Ranges within Pay Band for Groups A and B

Using a salary table, like the one above, is helpful in providing a quick snapshot of the number of employees and their salaries, group average salaries, and salary distributions. In addition, to gain a clearer understanding of local market conditions, organizations also may consider using external information.

Managing Salary Progression

Another critical management decision is the rate at which an employee's base salary progresses through the appropriate salary range. Under NSPS, this salary progression is made primarily through the performance management process. Performance-based payouts reward employee performance through increases to base salary, bonuses, or a combination of both. In most organizations, three factors will typically influence an employee's base salary increase: performance, the amount of money the organization budgets for performance-based increases, and the "position in range" (that is, where the employee's pay falls with respect to the appropriate salary range.). The third factor is based on the position-in-range pay progression model.

The position-in-range pay progression model is based on knowing the appropriate salary range and level of responsibility for a given position and level of responsibility and focuses on the quality of the employee's performance. Employees who have demonstrated performance of higher value occupy the upper portions of the salary range. Together, these elements are recognized and reinforced by the salary range.

Figure 6 – Notional Base Pay Progression defines the areas of a salary range and describes a combination of employee experience and performance that may affect an employee's starting salary and progression through that salary range. The number of ranges is not important, as some models may have more or less than the three ranges defined here. Rather, it is important to recognize that, within a pay band, several different salary ranges may exist that correspond to varying levels of employee responsibility, performance, knowledge, and ability. The speed at which an employee progresses through the band is tied to performance and the acquisition of knowledge, skills, and abilities.
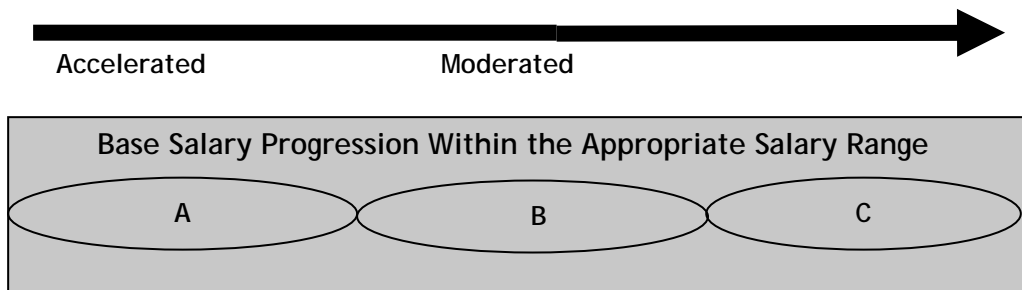
Figure 6 – Notional Base Pay Progression

Area A is generally intended for employees who are new to the position, are in a learning situation, or do not have substantial experience in the position.

Area B represents the middle of the salary range and should be the approximate average salary at which most of the experienced and seasoned staff in an occupation will cluster, usually after being in the position for several years or with equivalent experience. Once an employee reaches this area, their salary

progression may begin to slow or continue to progress based on high performance.

Area C is generally for employees with deep experience who have sustained a high level of performance. Once an employee reaches this area, their salary progression may begin to slow or continue to progress based on high performance.

It is likely that the majority of new hire and promotion salaries are set in areas A and B respectively; however, a candidate's experience and training, the local market conditions, or the scope and complexity of the position may provide the rationale for setting the salary anywhere within the range.

Control Points

NSPS regulations provide the flexibility to use control points, which may be a tool for managing compensation and salary progression. If used, control points must be applied consistently to similar positions in the same career group and pay band within a pay pool and should address deliberate compensation management decisions. For example, when an employee's salary reaches a certain pay level or control point, management makes a determination whether the employee's salary should progress beyond that point. The decision to advance the employee's salary beyond the control point is a deliberate one typically based on benchmarks against duties, responsibilities, and performance. If a decision is made not to advance the employee's salary, a bonus may be given in lieu of the increase to base salary. Control points also may be used as flags or to provide metrics to management.

Figure 7 – Notional Control Point for NSPS Pay Band YA-3 offers an example of how an organization might apply a control point using 2007 rate ranges. The control point is set five percent below the top of the pay band.

Control Point at $120,981
(5% of Pay Band Maximum)

YA-3 Pay
Band
Minimum
$79,115

YA-3 Pay Band
Maximum
$127,031

Figure 7 – Notional Control Point for NSPS Pay Band YA-3

In the next sections, we break out three elements of human capital management—attract, retain, and reward—and discuss how NSPS compensation flexibilities apply.

Attracting New Employees

Properly setting pay is key to attracting new hires. The first step in setting pay is to determine an appropriate salary range for a position or group of positions in an organization, since the entire pay band may not be appropriate. The following factors should be considered to determine the appropriate salary range:

- What is the position you are hiring for and where will that position be located?

- What is the entire salary range for the position? Are there any recruitment incentives available?

- Where are you targeting recruitment activities—locally, nationally, internationally? Are there any considerations specific to the geographic location where you are hiring? Will the organization pay for relocation?

- What is your organization's desired competitive position for this position?

- Is this position hard to fill?

- Does this position fill a critical agency business need?

- What is your organization's historical hiring success rate at the salary range being offered?

- What salaries are your competitors offering for comparable jobs?

- What are the salaries of your current employees in similar positions? If the new hire salary is set higher or lower, would the resulting difference be supportable?

- What are the out-year expectations for salary growth for this position?

- Are there out-year projections that you need to consider including—skill set, budget, manpower, or other human capital initiatives?

Once the appropriate salary range is determined and a suitable candidate is identified, a second set of questions is used to help determine the most appropriate salary. They are as follows:

- What is the candidate's current salary level?

- Are there DoD, Component, and higher headquarters controls on salary setting for new hires, promotions, reassignments, and reductions in band? What is the authorized range of increases that can be offered?

- What are the organization norms for such increases? What has been offered in the past? What do employees expect?

- What is the candidate's experience level—years of experience, breadth, depth, and scope of duties, responsibilities, and complexity of previous work?

- What training, licenses, or certifications does the candidate possess? Are these important to the organization or critical for the position?

- What is the candidate's education level? Is education important to the organization or critical for the position?

- What are the salaries of your current employees in similar positions? If the new hire salary is set higher or lower, would the resulting difference be supportable? What are the salaries of any subordinates?

Appendices B through D offer examples of questions to consider and checklists that managers may use to make appropriate salary decisions.

Use of Recruitment and Relocation Incentives
Incentives are effective tools for attracting employees to your organization.

Recruitment Incentives
Recruitment incentives are authorized for a new hire when the position is likely to be difficult to fill in the absence of an incentive. A recruitment incentive of up to 25 percent of basic annual pay (and in some cases up to 50 percent) may be offered to an employee newly appointed to the civil service or one who is being reappointed after a break in service of at least 90 days. Refer to Component policy and instructions for guidance on use within your organization.

Relocation Incentives
Relocation incentives are authorized for a current employee when the position requires the employee to relocate to a different geographic area and the position is likely to be difficult to fill in the absence of an incentive. A relocation incentive of up to 25 percent of basic annual pay (and in some cases up to 50 percent) may be offered to an employee who must relocate with no break in service to accept a position within the organization in a different commuting area. Refer to Component policy and instructions for guidance on use within your organization. Appendix E provides a checklist to help guide decisions on recruitment and relocation incentives.

Accelerated Compensation for Developmental Positions

Accelerated Compensation for Developmental Positions (ACDP) provides a way for organizations to compensate employees in developmental positions. To be eligible, employees must be in training or developmental programs designated as such by your Component and in the following career groups, pay schedules, and pay bands:

Career Group	Pay Schedule	Pay Band
Standard	Professional/Analytical	YA-1
Scientific and Engineering	Professional	YD-1
Medical	Professional	YH-1
Investigative and Protective Services	Investigative	YK-1

The ACDP provision allows managers to increase the pay of employees in developmental positions by: (1) increasing their base salary within their assigned pay band; (2) providing for lump-sum bonuses that do not increase the employee's base salary; or (3) using a combination of the options. The following considerations are weighed:

- Complexity of the work assigned and performed, especially in comparison to others with similar work assignments

- Current salary of the employee

- Projected salary at the end of the developmental assignment (that is, promotion to target pay band)

- Other salary increases associated with reassignment or promotion to the next pay band

- Performance-based compensation received during the performance payout

- Local market salary levels for comparable occupations in the private sector and other government agencies

- Budget constraints of the organization and availability of funds

- Long-term impact of a salary increase

- Other criteria consistent with Merit System Principles

Generally, a single base salary increase under the ACDP authority does not exceed 20 percent of the employee's base salary and may not cause an employee's base salary to exceed the top of the employee's assigned pay band.

Organizations choosing to use the ACDP pay provisions must establish and document standards by which to identify these employees and the criteria for determining future pay increases or bonuses. At a minimum, employees must receive a final rating of record of Level 3 (Valued Performer) or above in the annual performance cycle. (Note: If an employee does not yet have a rating of record, he or she must have performed under an approved performance plan for at least 90 days in a pay status, and the employee's supervisor or rating official must conduct a performance assessment and determine the employee is performing at least at the Level 3.)

Although decisions under the ACDP authority are handled, typically, on an individual basis, some organizations may find that a more uniform approach is appropriate. The following examples illustrate how the ACDP is applied.

Example 1

An organization hired two recent college graduates into a designated "internship." Both employees started on the same day with the same starting salary and have the same job objectives, but they are acquiring competencies at a different pace. The organization determined these employees would be considered for a bonus immediately after the first performance payout.

	Starting Base Salary	Rating	Shares & Payout Distribution	Base Salary After Payout	Salary Increase/ Bonus Under ACDP	Base Salary After ACDP
Carol	$40,000	3	2 Shares – all to base salary increase	$40,832	No bonus	$40,832
Maria	$40,000	4	3 Shares – all to base salary increase	$41,248	$2100 in lump-sum bonus	$41,248

Rationale – Carol was not given a base salary increase under the ACDP authority at her first opportunity for consideration because the organization concluded her current salary, $40,832, is appropriate and competitive for her work assignments, developmental pace, and performance. Maria was given a bonus under the ACDP authority of $2100 (just over 5 percent of her base salary). Although Maria's current salary is still appropriate and competitive for her work assignments, the bonus was used to recognize and compensate her for her performance and accelerated progression in acquiring job-related competencies.

Example 2

An organization hired two employees into formal training programs. Both employees started on the same day; however, one employee had more job experience, therefore, his starting salary was higher. His job objectives were also more complex. Both employees are progressing at the same pace within their designated training programs. The organization determined these employees would be considered for a base salary increase ten months after they were hired. The organization went through a performance payout cycle six months after these employees were hired.

	Starting Base Salary	Rating	Shares & Payout Distribution	Base Salary After Payout	Salary Increase/ Bonus Under ACDP	Base Salary After ACDP
Joe	$35,000	Level 3	2 Shares – all to base salary increase	$35,728	$3573 (10%) applied toward employee's base salary	$39,301
Fred	$45,000	Level 3	2 Shares – all to base salary increase	$45,936	No bonus	$45,936

Rationale – Joe was given a bonus under the ACDP authority to raise his base salary by 10 percent of his current base salary to keep his base salary competitive with what other employees in similar positions in other agencies are making. Fred was not given a bonus this year because his high starting salary and performance payout resulted in a current base salary that is appropriate and competitive for his work assignments, developmental pace, and performance.

Retaining Valued Performers – Promotions, Reassignments, and Retention Incentives

Your compensation framework and strategy must also take into account the critical need to ensure valued employees remain with your organization. NSPS gives managers greater authority and flexibility to manage the workforce and effectively use compensation as a useful retention tool. In addition to the annual performance process, promotions, reassignments, and retention incentives also provide managers the expanded flexibility to compensate valued performers.

Because the range of salary options is greater under NSPS, managers must carefully consider a variety of factors to determine the most appropriate salary. When determining the salary for these placement actions, it is important to determine the appropriate salary range for the position first (if not already known).

Promotions
Under NSPS, employees who are promoted to a position in a higher pay band are eligible to receive a pay increase of at least 6 percent and, with management approval, may receive an increase of 20 percent or higher. The employee's base salary cannot be lower than the minimum or higher than the maximum of the pay band of the position to which the employee is promoted.

Reassignments
Employees voluntarily applying for reassignment may receive up to a cumulative 5 percent increase in base salary over a 12-month period. If the reassignment is management directed, the employee may also receive a 5 percent increase in salary (not to exceed the maximum of the rate range).

Retention Incentives
A retention incentive of up to 25 percent of basic pay (up to 50 percent in some situations) may be authorized when the responsible management official determines that an employee's unusually high or unique qualifications, or a special need of the organization for the employee's services, makes it essential to retain an employee who would be likely to leave the Federal service in the absence of an incentive. Refer to Component policy and instructions for guidance on use of retention incentives within your organization.

See Appendices F and G for examples of questions managers may use to make promotion and reassignment determinations and a template of compensation and business-rules decision-making.

Rewarding Valued Performance

The NSPS performance management system compensates and rewards employees based upon individual and organizational performance and contribution. This system uses a pay pool concept to manage, control, and distribute performance-based pay increases and bonuses. Pay pool panels meet to help ensure fairness and consistency in performance ratings, shares, and payout distributions. These panel meetings are important to reconcile the recommendations of individual rating officials that may have varying levels of understanding of the NSPS performance management process, including the link between pay and performance.

Pay pool managers and panel members are involved in executing the organization's compensation strategy, and it is during pay pool panel meetings that many critical aspects of the organization's compensation strategy are executed.

> *Pay Pool panel members play a crucial role in making the process work. Our employees expect us to take this seriously. We are responsible for fostering an environment where valued performance is rewarded, and employees have a clear understanding of how the process works.*
>
> *Pay Pool Manager*

Pay pool panels should develop at least two sets of business rules. The first set of business rules focuses on process—how we organize our pay pool and operate to ensure that we get the work completed. Topics for this first set of rules may include establishing timelines and schedules for completing the rating process, ensuring that information is in the automated tools, and scheduling panel meetings.

The second set of business rules focuses on how to implement the compensation strategy consistently and fairly and educate panel members on their roles and responsibilities. This second set of business rules addresses such topics as share assignments, payout distributions, pay pool funding, use of Extraordinary Pay Increases (EPIs) and Organizational/Team Achievement Recognition (OARs) awards, monitoring salary cost growth, and use of appropriate control points.

Financial Considerations

The NSPS law states, to the maximum extent practicable, for fiscal years 2004 through 2008, the overall amount allocated for compensation of DoD employees who are under NSPS may not be less than the amount that would have been allocated for compensation of such employees if they had not been converted to NSPS.

Figure 7 – Civilian Pay Comparison illustrates the differences between Traditional Title 5 and NSPS Title 5 compensation. It is important to remember that NSPS does not change the amount of funding that is available to DoD organizations for civilian personnel costs; it only changes how those funds are distributed.

Same Civilian Pay Dollars!

Traditional Title 5
- Within-Grade Increases
- Quality Step Increases
- Promotions to Higher Grades
- Chapter 45 Incentive Awards
- GS Rate Increases
- GS Locality Pay Increases

NSPS Title 5
- Performance-Based Payouts (Pay Pool)
  - Salary Increases
  - Bonuses
- Promotions to Higher Bands
- Reassignments
- ACDP
- EPI
- OAR
- Chapter 45 Incentive Awards
- Rate Range Adjustments
- LMS Adjustments

Figure 7– Civilian Pay Comparison

Now that you have a clearer understanding of the compensation differences between the two systems, a description of how pay pools are funded is offered.

Pay Pool Funding

The Pay Pool Fund is a budgetary device used to administer the allocation of civilian pay related to performance payouts and comprises three elements.

Figure 8 – Pay Pool Funding Elements illustrates the elements.
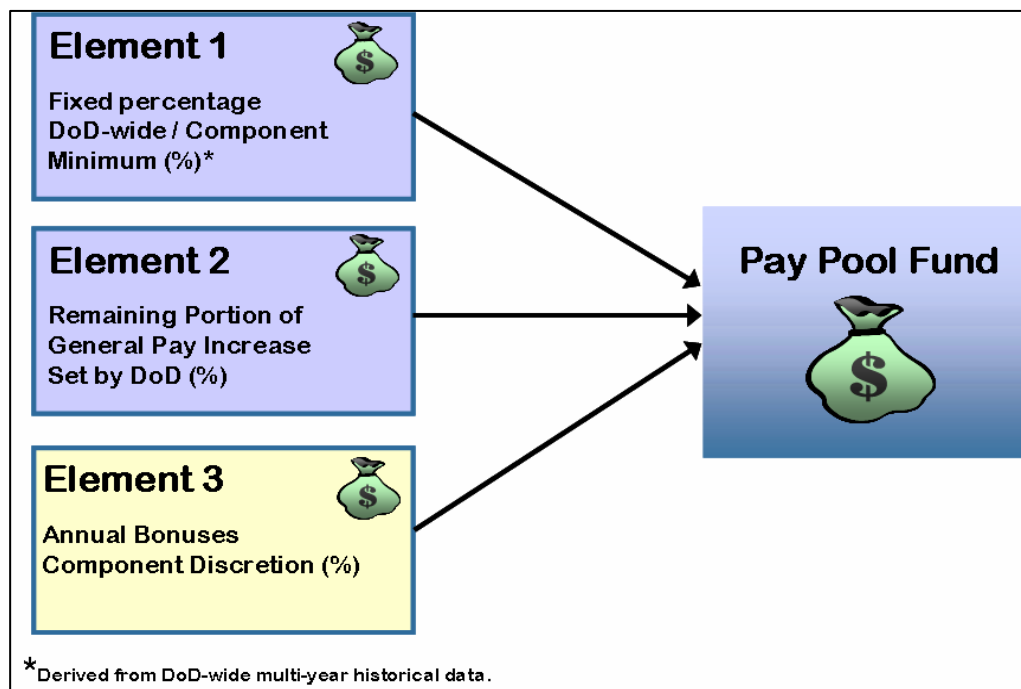
Figure 8 – Pay Pool Funding Elements

Element 1 – Represents basic pay funds that were historically spent on within-grade increases (WGIs), quality step increases (QSIs), and promotions between General Schedule (GS) grades that no longer exist under NSPS. Each pay pool, in conjunction with guidance from its Component, must set an Element 1 funding percentage before the pay pool process begins. At the end of the process, Components certify that they have met their funding floors.

For the January 2007 payout, historically-determined percentages were used for each organization. For the January 2008 payout, the Secretary of Defense (SECDEF) has established a minimum of 2.26 percent in the aggregate for each Component based on DoD-wide historical data. Beginning with the January 2009 payouts, Element 1 funding levels will be determined through a formula established by DoD.

Element 2 – Represents funds (if any) that are available from the government-wide general pay increase after the SECDEF has exercised authority to fund any rate range adjustments or LMS.

Element 2 funds are available for increases to base salary and/or bonus. Funds available for increases to base salary (Elements 1 and 2) may be used for bonus at the pay pool level provided Element 1 base salary funding floors are met at the Component level.

Element 3 – Represents funds spent for performance-based cash awards. These funds are only available for payout as a bonus.

Pay pools must set an Element 3 funding percentage before the pay pool process begins. Components may issue guidance about bonus funding. (NOTE: Chapter 45 incentive awards are still available using Title 5 authorities, but are not administered through the pay pool process).

Pay pool funding policy flows from DoD to the Components. In turn, Components may issue further guidance to their organizations. Organizational leaders work through their chains-of-command to determine specific pay pool funding requirements.

Calculating the Pay Pool Fund
The dollar value of the Pay Pool Fund is calculated by multiplying the sum of base salaries of those employees in a pay pool on the last day of the pay pool's appraisal period by the sum of the percentages assigned to the Pay Pool Fund elements.

Example
Pay pool XYZ has 10 employees and the total base salary for these 10 employees on the last day of the appraisal period was $826,000. The pay pool manager sets Element 1 as 2.5 percent and Element 3 as 1.5 percent. Element 2 was set at 0.0 percent by DoD. Therefore, the total pay pool fund is 4.0 percent, and the dollar value of the pay pool fund is $33,040.

Pay pool fund dollars = Total base salary x funding percentage

= $826,000 x 4.0 percent

= $33,040

The XYZ pay pool panel met and the pay pool manager approved the following ratings, shares, and payout splits:

Employee	Salary	Rating	Shares	Share Value	Payout	Salary Increase	Bonus
Joe	$85,000	4	4	1.572%	$5,344	$3,207	$2,137
Sally	$79,000	3	1	1.572%	$1,242	$745	$497
Jose	$100,000	5	6	1.572%	$9,431	$5,659	$3,772
Derrick	$110,000	4	3	1.572%	$5,187	$3,112	$2,075
Maria	$70,000	4	3	1.572%	$3,301	$2,641	$660
Paul	$35,000	3	1	1.572%	$550	$330	$220

Employee	Salary	Rating	Shares	Share Value	Payout	Salary Increase	Bonus
Peter	$55,000	3	2	1.572%	$1,729	$1,729	$0
Miguel	$79,000	3	2	1.572%	$2,484	$1,242	$1,242
Sam	$93,000	2	0	1.572%	$0	$0	$0
Antwan	$120,000	3	2	1.572%	$3,772	$1,131	$2,641
		Total Allocated			$33,040 (4.5%)	$19,796 (2.4%)	$13,244 (1.6%)
		Budgeted			$33,040 (4.5%)	$20,650 (2.5%)	$12,390 (1.5)
		Balance			$0	$854	-$854

Note that the overall pay pool budget of $33,040 was allocated at 100 percent. However, the salary increase budget was slightly under spent (2.4 percent) and the bonus budget was slightly over spent (1.6 percent). Element 1 funds may be used for salary increases or bonuses, as long as the Component-level Element 1 funding floor is met in the aggregate.

Pay pools are prohibited from using Element 3 funds on salary increases. Generally, pay pools should allocate their funds in the form they have budgeted.

Historical Spending – Why It Is and Is not Important
Element 1 represents basic pay funds that were historically spent on WGIs, QSIs, and promotions between GS grades that are now encompassed by a pay band. When an organization first transitions to NSPS, it makes sense to examine previous years' spending as one consideration when determining its current year's pay pool funding. By doing so, an organization can begin to understand how much it was spending on salary increases – something that may not have been watched closely under GS since WGIs were "must pays," and salary progression was controlled automatically by the waiting periods between steps and competitive promotions between grades.

Under NSPS, the control mechanisms of waiting periods and promotions between grades no longer exist. Therefore, organizations must be more aware of how much and how quickly employees are receiving salary increases.

Figure 9 – Title 5 Historical Spending, on page 26, shows a notional 10-person organization and the changes to their salaries over a one-year period under GS.

Title 5 Historical Spending					
30 September 2005		30 September 2006		WGI	In-Band Promotion
New Hire	--	GS-9 step 2	$39,448		
GS-9 step 5	$43,267	GS-9 step 5	$43,267		
GS-9 step 7	$45,813	GS-9 step 7	$45,813	$1,273	
GS-9 step 10	$49,632	GS-11 step 10	$49,632		
GS-11 step 3	$49,269	GS-11 step 3	$49,269		
GS-11 step 5	$52,349	GS-11 step 5	$52,349		
GS-11 step 8	$56,969	GS-11 step 8	$56,969	$1,540	
GS-11 step 10	$60,049	GS-11 step 10	$60,049		
GS-12 step 4	$60,895	GS-12 step 4	$60,895	$1,845	
GS-12 step 7	$66,430	GS-13 step 5	$72,414		$5,984
GS-13 step 10	$85,578	Retired	--		
Total Base Pay	$570,251		$530,105	$4,658	$5,984

10 Employees in Pay Pool

Element 1 Funding % = $\dfrac{\text{WGI \$ and In-Band Promotion \$}}{\text{Total Base Pay}}$

$= \dfrac{(\$4,658 + \$5,984)}{570,251} \times 100$

$= 1.87\%$

NSPS Element 1 Funding = $10,642

Figure 9– Title 5 Historical Spending

In the example, the total base pay on September 30, 2005, was $570,251. Between September 30, 2005 and September 30, 2006, three employees received WGIs and one employee received a promotion from GS-12 to GS-13. The promotion would not exist under NSPS because GS-12 and GS-13 are encompassed by the same NSPS pay band. The total amount spent on these four actions was $10,642, or 1.87 percent of the September 30, 2005 total base pay. This represents the amount this organization would fund Element 1 in 2007 if it wanted to spend exactly the amount it did the previous year. So, should Element 1 in 2007 for this pay pool be 1.87 percent? Should it always fund Element 1 at 1.87 percent?

For 2007, 1.87 percent may be acceptable, but in the future 1.87 percent may not be the right answer since organizations are dynamic, and the amount of money they need for salary increases each year may vary.

Consider what would happen if only one additional person received a WGI between 2005 and 2006. The funding percentage would increase to 2.10 percent; and if one additional person received a promotion between 2005 and 2006, the funding would increase by more than 2.8 percent. On the other hand, if the employee did not receive the promotion, the funding percentage would be 0.82 percent.

Because of the dynamic nature of organizations, using historical spending to set future pay pool funding is not a great "stand-alone" methodology. Organizations should consider the use of various elements, such as historical spending, organizational performance, overall civilian personnel budget health, and current and future workforce requirements to set pay pool funding levels and make funding decisions.

Financial Impacts of Rating Inflation

Forced distribution is not allowed under NSPS. It is expected that rating distributions may vary widely across organizations. However, it is a fair assumption that most organizations will typically have more final ratings of record of 3 than 4, and more final ratings of record of 4 than 5. If the distribution shifts to the right, or becomes inflated, and more employees receive 5s than 4s and 4s than 3s, an organization's ability to reward its top performers is reduced. Specifically, the share value gets smaller and the range of payouts is reduced. By reducing the payout range, the organization loses its ability to differentiate between level 3, level 4, and level 5 performers. In effect, the payouts are spread more evenly across a pay pool.

Shares

Just as organizations work towards a shared understanding of performance, it is equally important that managers and supervisors develop a common rationale and methodology for assigning shares and distributing payouts.

Rating officials are given discretion for assigning shares based on the final rating of record. A shared understanding among rating officials and pay pool managers regarding share assignment is important to build and maintain trust in the system.

Performance Share Ranges	
Rating of Record	Share Range Available for Assignment
5	5 - 6 shares
4	3 - 4 shares
3	1- 2 shares
2	No shares
1	No shares

Considerations for share assignment may include the complexity of the work, overall contribution to the mission of the organization, organizational success, fiscal soundness, un-rounded raw score (such as 3.66), employee's current salary, impact of contributing factors, and other criteria consistent with Merit System Principles and EEO laws. Share assignments may not be influenced by personal bias or favoritism or involve a prohibited personnel practice. The basis or criteria by which shares are assigned to individual employees should be applied consistently across the pay pool.

Below are three examples of methods for determining share assignments. Organizations may find that a combination works best, and these methods may evolve and change as the organization becomes more comfortable with managing compensation under NSPS.

Example 1 - Complexity of Work

A supervisor has two employees. Maria's job is more complex than Joe's. He gave them the following ratings and shares:

	Objective 1 Rating	Objective 2 Rating	Objective 3 Rating	Raw Score	Rating	Shares
Maria	3	3	4	3.33	3	2
Joe	3	3	4	3.33	3	1

Rationale: The supervisor decided to give Maria two shares because the work she accomplished was more complex in nature.

Example 2 - Rounding Approach

A supervisor has two employees who received the following ratings and shares:

	Objective 1 Rating	Objective 2 Rating	Objective 3 Rating	Raw Score	Rating	Shares
Bob	3	4 (3 + 1 CF*)	3	3.33	3	2
Pat	3	3	3	3.00	3	1

* Contributing Factor (CF)

Rationale: The organization assigned additional shares to individuals with higher un-rounded scores.

Example 3 - Share Assignment Based on Current Salary in Relation to Appropriate Salary Range

A supervisor has two employees in similar positions but with different salaries. The supervisor gave them the following ratings and shares:

	Objective 1 Rating	Objective 2 Rating	Objective 3 Rating	Raw Score	Rating	Shares
Terry	3	4 (3 + 1 CF)	3	3.33	3	1
Lee	3	3	3	3.00	3	2

Rationale: The supervisor gave Terry one share since his salary is close to the maximum of the salary range and gave Lee two shares since her salary is much lower in the range and should be increased based on her performance and experience.

Payout Distribution

An employee's performance payout is calculated by multiplying the employee's base salary (at the end of the appraisal period) by the number of shares the employee earned by the share value. For example, Joe earned $85,000 on

September 30th; he received 4 shares and the share value in his pay pool was 1.572 percent. Therefore, his performance payout is:

Performance Payout = Base Salary x Shares x Share Value

$$= \$85,000 \times 4 \times .01572$$

$$= \$5,344$$

Once approved, the employee's performance payout may be paid as (1) an increase in base salary, (2) a bonus, or (3) a combination of the two. The payout distribution must be consistent with NSPS implementing issuances, financial management policies/directives, and Merit System Principles.

There are long-term impacts to payout distributions. Careful consideration by pay pool managers and pay pool panel members regarding these impacts is an important responsibility. When determining the split between salary increase and bonus, the following types of considerations are weighed:

- Current salary and complexity of work performed in comparison with others in similar work assignments

- Performance-based compensation received during the rating cycle associated with promotions, reassignments, or awards

- Local market salary levels of comparable occupations in private sector and other government activities

- Attrition and retention rates of critical skill shortage personnel

- Overall contribution to the mission of the organization

While payout distribution decisions may be handled on an individual basis, some organizations find that a more uniform approach is appropriate. For example, a pay pool may determine that the default payout split for every employee in the pay pool is 70 percent to base salary and 30 percent bonus.

If a rating official feels that an employee's split should be something different than the default, then the rating official provides the rationale for the recommended change in split to the pay pool.

Below are two examples of methods for determining an employee's payout split. Organizations may find that a combination of methods works best, and that their methods may evolve as the organization becomes more comfortable with managing compensation under NSPS.

Example 1 - Split Based on Current Salary in Relation to Appropriate Salary Range

A supervisor has two employees. Harry received a final rating of record of Level 3 (Valued Performer) with two shares, and Silvia a final rating of record of Level 3 (Valued Performer) with one share. The rating official determined the following payout splits:

	Base Salary	Rating	Shares	Share Value	Payout	Salary Split	Bonus Split
Silvia	$85,000	3	1	1.572%	$1,000	0% - $0	100% - $1,100
Harry	$75,000	3	2	1.572%	$2,672	100% - $2,672	0% - $0

Rationale: Harry's salary is lower in the salary range than Silvia's. The rating official decided to give Silvia 100 percent of her payout in bonus since her salary is close to the maximum of the salary range, and decided to give Harry 100 percent of his payout in salary increase since his salary is much lower in the range and warrants an increase based on his performance and skills.

Example 2 - Payout Based on Pay Pool Funding Split

An organization's pay pool funding is 70 percent salary (Element 1) and 30 percent bonus (Element 3). A rating official has two employees with the same three job objectives. Maria received a final rating of record of 3 (Valued Performer) and was assigned two shares, and Joe received a final rating of record of 3 (Valued Performer) and was assigned one share. The pay pool manager told her rating officials that the funding split for salary and bonus should be 70 percent salary and 30 percent bonus to mirror proportionately pay pool funding from Elements 1 and 3. If the rating official thought a different split was appropriate, then she would submit that recommendation with supporting rationale. The rating official decides to use the funding split prescribed by the pay pool manager.

	Base Salary	Rating	Shares	Share Value	Payout	Salary Split	Bonus Split
Maria	$85,000	3	2	1.572%	$2,672	70% - $1,870	30% - $802
Joe	$70,000	3	1	1.572%	$1,100	70% - $770	30% - $330

Rationale: Since there was no compelling reason to do otherwise, the rating official decided to go with the pay pool manager's guidance and give Joe and Maria the recommended split.

Putting It All Together

NSPS flexibilities afford leaders, managers, and supervisors the opportunity to thoughtfully develop compensation frameworks and strategies that are grounded in merit principles and ensure that DoD continues to attract, retain, and reward talented employees.

As DoD continues to share lessons learned during NSPS implementation and our managers and supervisors become more comfortable with their compensation-related responsibilities, our knowledge base will expand. In turn, this guide will be updated to share new best practices.

As we continue learning about how we use the NSPS flexibilities, we need to keep the following in mind:

- Our compensation framework is based on and supports our overall human capital strategy; considering compensation-related issues in a vacuum will not get us to where we want or need to be.

- We are creating a market-driven, performance-management compensation framework. This means that we have to look beyond the tools and approaches we currently use, learn from colleagues who work in alternative systems and the private sector, and create new tools and approaches to meet our unique needs and challenges.

- Implementing effective compensation strategies that effect positive change in the long run takes thoughtful consideration and time. We owe it to ourselves to take the time now so we do it right.

- There are gray areas. We need to work with one another to build shared understandings of what we are trying to accomplish.

- Our employees matter. We need to ensure that our employees are well informed about our frameworks and strategies and that they are vested in them.

Appendices

The following resources are provided to support you.

Appendix A – Summary of Protections for Federal Employees

Appendix B – Salary Setting Checklist

Appendix C – Determining Salaries

Appendix D – Salary Setting Approval Checklist

Appendix E – Recruitment and Relocation Incentives Checklist

Appendix F – Promotions and Reassignments

Appendix G – Compensation Decisions and Business Rules Template

Appendix A – Summary of Protections for Federal Employees

Managers and supervisors must remember that their compensation decisions must comply with the protections provided to all federal employees that are unchanged by NSPS.

Summary of Protections for Federal Employees
NSPS flexibilities have many discretion points; however, supervisors and managers must remember that their actions may be challenged against protections for federal employees, which are unchanged by NSPS and that they need a legitimate, non-discriminatory business reason for their actions.
Equal Employment Opportunity Discrimination Complaint: Civil rights laws, including Title VII of the Civil Rights Act of 1964, as amended, the Equal Pay Act of 1963, the Age Discrimination in Employment Act of 1967, and the Rehabilitation Act of 1973, prohibit the discrimination of employment (hiring, promotion), opportunity (details, training, awards, reassignment, etc.) to an employee, applicant, and former employee on the basis of: • National Origin • Religion • Color • Race • Age (40 years old and older) • Sex (male/female) • Sexual Harassment • Disability (mental and/or physical)
Sexual Preference: 5 U.S.C. §2302(b)(10) is interpreted as prohibiting discrimination on the basis of sexual preference. Executive Order 11478 as amended by Executive Order 13087, also prohibits discrimination on the basis of sexual preference.
Prohibited Personnel Practices: Under 5 U.S.C. §2302(b) a Federal employee authorized to take, direct others to take, recommend or approve any personnel action may *not*: (1) discriminate against an employee or applicant based on race, color, religion, sex, national origin, age, handicapping condition, marital status, or political affiliation; (2) solicit or consider employment recommendations based on factors other than personal knowledge or records of job-related abilities or characteristics; (3) coerce the political activity of any person; (4) deceive or willfully obstruct anyone from competing for employment; (5) influence anyone to withdraw from competition for any position so as to improve or injure the employment prospects of any other person; (6) give an unauthorized preference or advantage to anyone so as to improve or injure the employment prospects of any particular employee or applicant; (7) engage in nepotism (i.e., hire, promote, or advocate the hiring or promotion of relatives); (8) take, fail to take, or threaten to take a personnel action with respect to any employee or applicant because of any disclosure of information by the employee or applicant that he or she reasonably believes evidences a violation of a law, rule, or regulation; gross mismanagement; gross waste of funds; an abuse of authority; or a substantial and specific danger to public health or safety, if such disclosure is not barred by law and such information is not specifically required by Executive Order to be kept secret in the interest

of national defense or the conduct of foreign affairs. If so restricted by law or Executive Order, the disclosure is only protected if made to the Special Counsel, the Inspector General, or comparable agency official;

(9) take, fail to take, or threaten to take a personnel action against an employee or applicant for exercising an appeal, complaint, or grievance right; testifying for or assisting another in exercising such a right; cooperating with or disclosing information to the Special Counsel or to an Inspector General; or refusing to obey an order that would require the individual to violate a law;

(10) discriminate based on personal conduct which is not adverse to the on-the-job performance of an employee, applicant, or others; or

(11) knowingly take, fail to take, recommend, or approve a personnel action if taking or failing to take such an action would violate a veterans' preference requirement; and

(12) take, or fail to take a personnel action, if taking or falling to take action would violate any law, rule or regulation implementing or directly concerning Merit System Principles at 5 U.S.C. §2301

Merit System Principles: Under 5 U.S.C. §2301(b) Federal personnel management should be implemented consistent with the following Merit System Principles:

(1) Recruit, select, and advance on the basis of merit after fair and open competition.

(2) Treat employees and applicants fairly and equitably.

(3) Provide equal pay for equal work of value consistent with market rates; reward excellence in performance.

(4) Maintain high standards of integrity, conduct, and concern for the public interest.

(5) The Federal work force should be used efficiently and effectively.

(6) Employees should be retained on the basis of the adequacy of their performance, inadequate performance should be corrected, and employees should be separated who cannot or will not improve their performance to meet required standards.

(7) Employees should be provided effective education and training in cases in which such education and training would result in better organizational and individual performance.

(8) Employees should be –

 (A) protected against arbitrary action, personal favoritism, or coercion for partisan political purposes, and

 (B) prohibited from using their official authority or influence for the purpose of interfering with or affecting the result of an election or a nomination for election.

(9) Employees should be protected against reprisal for the lawful disclosure of information which the employees reasonably believe evidences -

 (A) a violation of any law, rule, or regulation, or

 (B) mismanagement, a gross waste of funds, an abuse of authority, or a substantial and specific danger to public health or safety.

Appendix B – Salary Setting Checklist

Question	Answer
What is the position to which you are hiring, promoting, or reassigning, and where will that position be located?	Covered position: Geographic Locations:
What is the entire salary range for the position? What is the salary range that will/would be offered for a starting salary? Are there any recruitment incentives available?	Annual Base Salary: Recruitment/Relocation Incentive:
Where will your organization be recruiting the position – locally, nationally, internationally? Are there any considerations specific to the geographic location where you are hiring? Will the organization pay for relocation?	Labor Market: Location of positions:
Is this position hard to fill?	
Does this position fill a critical agency business need?	
What is your organization's historical hiring success rate at this salary?	Acceptance Rate: What was the size of candidate pool? (select most representative): A) High number of well qualified candidates B) Reasonable number of well qualified candidates C) Inadequate number of well qualified candidates How would you rate the acceptees' fit to the job? (select most representative): A) Acceptees are exactly what we are looking for B) Well qualified, but will need to add some developmental activities to match position requirements C) Qualified, but will need to add significant developmental time to match position requirements
How much latitude will you give the hiring manager in setting a salary?	Selecting official can approve up to: Salaries above that, up to ___ require ___ level approval. Anything above ___ percent requires ___ level approval.
What salaries are your competitors offering for comparable jobs?	DoD and other comparable federal organizations: Other competitors:

Question	Answer
What are the salaries of your current employees in similar positions? If the new hire salary was higher or lower, would the resulting difference be acceptable?	Employees in similar positions ( ) in this organization with similar qualifications and experience ( ) backgrounds are earning between $( ) and $( ).
What is your organization's desired competitive position for this category of positions?	Select one: A) Lag B) Meet C) Leed Rationale:
Are there out-year projections that you need to consider including—skill set, budget, manpower, or other human capital initiatives?	Work: Budget: Manpower: Human Capital initiatives:
What are the out-year expectations for salary growth for this position?	Out-year requirements:

Appendix C – Determining Salaries

The following examples illustrate how answers to the questions in this section may be used to help Components and organizations manage pay setting for new hires. The examples are described in terms of adjusted salary (including the applicable local market supplement). This approach ensures that the local market supplement is considered appropriately in pay setting decisions.

Example 1 – Determining the Salary range for a Group of Employees

An organization is staffing a small program office to manage the development of advanced sensor devices. In order to make salary offers to potential new hires, the organization must first determine the appropriate salary ranges for those new positions. The following questions were considered:

Question	Response
What are the positions you are hiring for and where will they be located?	The manpower requirements call for six journey-level engineers (YD-2) and four expert/manager engineers (YD-3). The new hires will come from Federal and non-Federal sources. All the positions will be located in San Diego, California.
What is the entire salary range for the positions? Are there any recruitment incentives available?	For the YD-2 positions in San Diego, the entire YD-2 pay band salary range is $46,720 to $104,742. For the YD-3 positions in San Diego, the entire YD-2 pay band salary range is $91,312 to $152,869. A one-time cash recruitment bonus of up to $2,000 for critical skills and occupations may be available.
Where will your organization be targeting recruitment—locally, nationally, internationally? Are there any considerations specific to the geographic location where you are hiring? Will the organization pay for relocation?	The program office will be located in San Diego, California. We will be recruiting nationally for the best available talent to work this program; however, relocation will not be paid. There are a number of other Federal organizations and contractors located in the San Diego area, and competition for talent is tough.
What is your organization's desired competitive position for these positions?	Lead if possible, and at minimum, meet as work is mission-critical, high priority, and has high visibility (DoD-level interest). **Additional thoughts:** Are these core or mission-critical positions? Do you need potential Nobel laureates or are capable, well qualified candidates your target candidate pool? Generally, higher qualifications and advanced experience equate to higher starting salaries. Unique or special cases where relatively few people have the skills and

Question	Response
	capability to do the work (for example, if the position needs both an advanced degree and work experience in the forefront of a theoretical emerging technology area) are more likely to command salaries at the upper end of the salary range.
Is this position hard to fill?	Yes. There are a number of other Federal organizations and contractors located in the San Diego area and competition for talent is tough.
Does this position fill a critical agency business need?	Yes, all positions are critical.
What is your organization's historical hiring success rate at this salary?	The hiring success rate within these salary ranges has been good in similar situations in San Diego. Acceptance rates have varied based on the size of the candidate pool. **Additional thoughts:** If you are getting the number and quality of hires needed with reasonable effort, then you probably have no further need to consider success rates for this class. If you are not getting number and quality or expending unreasonable effort, then you will need to evaluate further. Analysis may indicate that factors other than salary are the issue. If this is the case, you will need to try to devise solutions that directly address the problem. If necessary, increased compensation can be considered as an incentive that may help offset the problem.
What salaries are you competitors offering for comparable jobs?	Approximately $68,000 base salary for journey level and approximately $95,000 for expert level. **Additional thoughts:** How do your current salary offers compare to these data points? If they are in range, then what unique factors may be involved that drive your outcomes? The problem may be amenable to a solution other than increasing starting salary. If your staring salaries appear low, can you afford the increase (current and out-years)? Are there strategies you can use to offset the increase? For example, could you request more money, gap positions, or pace promotions/ACDPs so aggregate employee earnings over time are not reduced,

Question	Response
	but higher starting salaries are at least partially offset by managing time between promotions, replacing high turnover (retirements and so on) with entry level hires, and so on?
What are the salaries of your current employees in similar positions? If the new hire salary is set higher or lower, would the resulting difference be supportable?	Because this is a new organization, equity to existing positions is not an issue.
What are the out-year expectations for salary growth for this position?	Given priority, impact, and visibility of program, expect program staff will be selected from the best of the best so can reasonably expect request for allocations of additional funds above the norm for OAR and EPI recognition. Yearly salary increases expected to be on average 5 percent including rate range and local market supplement adjustments.
Are there out-year projections that you need to consider including—skill set, budget, manpower, or other human capital initiatives?	Duration of this developmental program is expected to be 5 years; after that, this will transition to production and logistics support phases and compensation requirements will need to be re-evaluated. **Additional thoughts:** How much latitude do you have to adjust the resource allocation – can you spend more money (current and out-years) and do you have the needed manpower authorizations (current and out-year numbers and level of authorized positions)? If you do not currently have the latitude to adjust, can you get approval from a higher authority? Will the use of recruitment incentives (cash bonus, student loan payback program, or others) achieve the desired result? If so, there may be no need to change salary offers and recruitment incentives will have fewer long-range budget impacts.

Salary Decision

The key decision driver is the need to staff the program office with seasoned professionals.

For its YD-2 positions, the organization decided an appropriate starting salary range is $70,000 to $85,000. The organization determined this range by looking at what other DoD organizations and Federal agencies offer employees for this type of work.

For its YD-3 positions, the organization decided to set the starting salary range between $90,000 and $110,000. These targets are consistent with those in similar DoD program offices.

The program office budget and manpower plans support these requirements and have been prepared with these targets as their baseline.

Example 2 - Setting Pay for a Single Employee

An organization needs to hire a non-supervisory business and financial manager in the YA-2 pay band. The supervisor considers the following questions to determine the appropriate salary range for the position:

Question	Response
What is the position you are hiring for and where will it be located?	One business and financial management position (occupational code (0501). The position will be located in Huntsville, Alabama.
What is the entire salary range for the position? Are there any recruitment incentives available?	For the YA-2 positions in Huntsville, the entire YA-2 pay band range is $44,104 to $98,876. No recruitment incentives are available.
Where will your organization be targeting recruitment activities—locally, nationally, internationally? Are there any considerations specific to the geographic location where you are hiring? Will the organization pay for relocation?	Regional—candidates typically are from locations within 50 miles or less of duty station. Relocation will not be paid.
What is your organization's desired competitive position for this category of position?	Meet the market.
Is this position hard to fill?	This position is NOT one of the more difficult positions to fill in the organization.
Does this position fill a critical agency business need?	Business and financial manager positions in project offices are an important part of the team and are relied on heavily for monitoring and reporting on the financial health of the project as well as managing the day-to-day expenditure of funds and other financial assets.
What is your organization's historical hiring success rate at this salary?	Historically, the vast majority of offers are accepted.
What salaries are your competitors offering for comparable jobs?	Journey-level business and financial managers in similar organizations with bachelor's degrees and 5 years experience earn between $55,000 and $65,000.
What are the salaries of your current employees in similar positions? If the new hire salary is set higher or lower, would the resulting difference be supportable?	The salaries of other employees performing similar duties and/or in similar level positions are: • Employee 1 = $57,885 • Employee 2 = $66,843 • Employee 3 = $73,112 • Employee 4 = $60,650

Question	Response
	The manager would like to try to keep the new hire salary within the bottom half of salaries of the existing positions.
What are the out-year expectations for salary growth for this position?	Would expect the incumbent of this position to progress to an annual base salary of around $60,000 (current year dollars) in this position.
Are there out-year projections that you need to consider including—skill set, budget, manpower, or other human capital initiatives?	Ongoing and continuing at current levels for at least the next decade. The project office is working a multi-year effort with planned upgrades and enhancements to the system after the current phase is completed.

Planned requirements are funded fully and sponsors have committed to full funding for out-year efforts at levels that will sustain the current level of operations into the future.

Staffing levels and funding are stable and will remain that way. Turnover in this class of positions is reasonable (approximately 5 percent annually) and is usually driven by career progression of incumbents. |

After reviewing the information, the organization set the starting salary range for this position between $53,000 and $65,000. Figure A – Example 2 Salary Range within the YA-2 Pay Band Range offers an illustration.

Salary Range Min
$53.000

Salary Range Max
$83.000

YA-2 Band Range
Minimum
(Huntsville)
$44,104

Starting Salary Range
$53.000 – 65.000

YA-2 Band Range
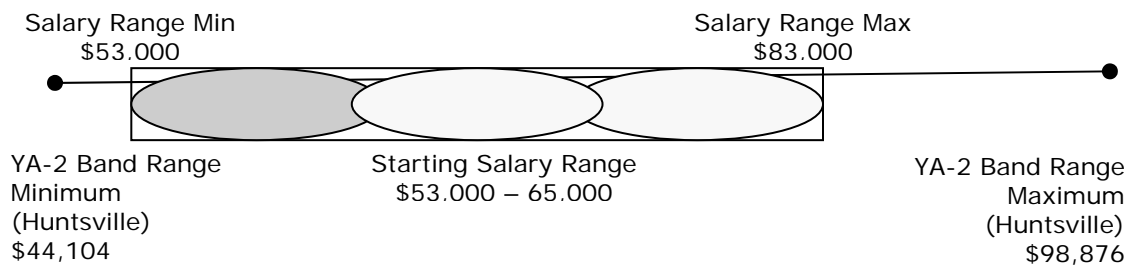Maximum
(Huntsville)
$98,876

Figure A – Example 2 Salary Range within the YA-2 Pay Band Range

The organization reviews the applications of 15 candidates and decides to make an offer to Sarah, who is currently earning $56,000 per year working in private industry. The following questions help the organization determine an appropriate starting salary offer.

Question	Answer
What is the candidate's current salary level?	Sarah currently earns $56,000 per year working in private industry.
What is the candidate's experience level—years of experience, breadth, depth, and scope of duties, responsibilities, and complexity of previous work?	She has six years of experience encompassing both financial and business management disciplines. Her work experience is compatible with the duties she will be performing in the organization.
What training, licenses, or certifications does the candidate possess? Are these important to the organization and/or critical for the position?	n/a
What is the candidate's education level? Is education important to the organization and/or critical for the position?	She is a college graduate and a college-level degree is important to the position.
What are the salaries of your current employees in similar positions? If the new hire salary was higher or lower, would the resulting difference be supportable?	The salaries of other employees performing similar duties and/or in similar level positions are: • Employee 1 = $57,885 • Employee 2 = $63,843 • Employee 3 = $65,112 • Employee 4 = $60,650 We would like to keep the new hire salary within the bottom ½ of salaries of the existing positions.

Salary Decision

The organization decides to make an offer of $60,000, which is within the range and provides a solid salary incentive for the employee to accept the offer.

Appendix D - Salary Setting Approval Matrix

To meet recruiting demands and maintain a high quality workforce, managers must be given sufficient flexibility to respond to local trends in compensation. At the same time, we must guarantee fiscal accountability, internal equity, and ensure that legal requirements are addressed properly across the many management authorities that are within DoD. An approach that has been successful for other large organizations is to provide for significant autonomy "on the ground" but also to instill the concept of oversight by degree. Essentially, this means that successive levels of review are put into play based on how far the decision varies from standard practice. The following is a **sample approach** for a tiered approval matrix.

I= Initiate, C=Consult, A=Approve

	1st Level Supervisor	2nd Level Supervisor	Division/ Program Executive	Major Command Leader or Equivalent	HR Advisors
INITIAL NEW EMPLOYEE SALARY OFFERS					
Less than 5 percent greater than average salary	I	A			C
Up to 10 percent greater than average salary	I	A			C
Up to 15 percent greater than average salary	I		A		C
Up to 20 percent greater than average salary	I		A		C
Greater than 20 percent greater than average salary	I			A	C
SALARY CHANGES FOR EXISTING EMPLOYEES					
Promotion (to next higher pay band)					
Less than 5 percent of employee's salary	I	A			C
Up to 10 percent of employee's salary		A			C
Up to 15 percent of employee's salary	I		A		C
Up to 20 percent of employee's salary	I		A		C
Greater than 20 percent of employee's salary	I			A	C
Reassignments					
Up to 5 percent of employee's salary	I		A		C

Appendix E - Recruitment and Relocation Incentives Checklist

Recruitment/Relocation Incentives Checklist for _____ in _____ locations (Complete and attach to the new hire checklist.) (Optionally may use Component form or format for written justification required by Memorandum Under Secretary of Defense, Subj: Implementation of Recruitment, Relocation, and Retention Incentives dated 21 Sep 2006)	
Discuss the basis for your conclusion that a recruitment incentive is needed. You must address at least one of the factors at right, plus any Component-specific guidance.	Employment trends and labor market factors: Non-Federal salaries paid for similar positions: Special or unique competencies required for the position: Efforts to use non-pay authorities: Desirability of the duties, work or organizational environment, or location of the position: Other pertinent factors – (identify each):
What is the amount of incentive being requested and what is the basis for arriving at this figure? How did you determine that a lower amount would not be adequate?	Amount of incentive: Rationale:
What is the length of time for which the incentive is being requested and what is the basis for arriving at this figure? How did you determine that a shorter length of time would be inadequate?	Length of required service period: Rationale:

Appendix F – Promotions and Reassignments

The following examples provide insight into the decision-making process. As in Appendix C, the examples are described in terms of adjusted salary (including the applicable local market supplement). This approach ensures that the local market supplement is considered appropriately in pay setting decisions.

Example 1 - Promotion

An organization has a vacancy for a YA-2210-3 Information Technology Specialist. The position will be supervised by the chief information officer, who is also a YA-3. The supervisor answered the following questions to determine the appropriate salary range for the position.

Question	Answer
What is the position you are hiring for and where will that position be located?	One YA-3 IT specialist (2210) The position will be located in Washington, DC.
What is the entire salary range for the positions? What are the salary ranges that will be offered for a starting salary? Are there any recruitment incentives available?	For the YA-3 positions in Washington, DC, the entire YA-3 pay band range is $89,984 to $150,646. The entire range will be considered for the starting salary. There are no special recruitment incentives available for this position.
Where will your organization be targeting recruitment activities—locally, nationally, internationally? Are there any considerations specific to the geographic location where you are hiring? Will the organization pay for relocation?	Local – candidates typically are from locations within 50 miles or less of duty station. Relocation will not be paid.
What is your organization's desired competitive position for this category of positions?	Meet the market.
Is this position hard to fill?	This position is NOT one of the more difficult positions to fill in the organization as there is a surplus of qualified candidates in the area.
Does this position fill a critical agency business need?	Yes, this is a senior level position that is required for mission success.
What is your organization's historical hiring success rate at this salary?	Historically, 80 percent of offers are accepted.
What salaries are your competitors offering for comparable jobs?	Senior level IT specialists typically earn between $94,000 and $120,000 in other Federal agencies. Salaries offered by industry may be significantly higher.

Question	Answer
What are the salaries of your current employees in similar positions? If the new hire salary was higher or lower, would the resulting difference be supportable?	The salaries of other employees performing similar duties and/or in similar level positions are: • Employee 1 = $110,000 • Employee 2 = $97,998 • Employee 3 = $99,033 • Employee 4 = $120,310 The manager would like to try and keep the salaries within the range for the position ($94,000 to $120,000).
What are the out-year expectations for salary growth for this position?	Would expect the incumbent of this position to progress to an annual base salary of around $120,000 (current year dollars) in this position.
Are there out-year projections that you need to consider including—skill set, budget, manpower, or other human capital initiatives?	There are none that affect this position.

The organization determines that the appropriate salary range for this position is $94,000 to $120,000. After reviewing 25 applications and conducting several interviews, Maria, who already works in the organization, is selected. This position is a promotion for Maria since she is a YA-2 IT specialist. To help set her salary, the following questions are explored:

Question	Answer
What is the candidate's current salary level?	Maria is a YA-2 and currently earns $78,000.
What are the DoD, Component, and higher headquarters controls on salary setting for promotions, reassignments, and reductions in band? What is the authorized range of increases that can be offered?	Six percent is the minimum for a promotion. Normally, 6–12 percent, 12–20 percent with justification, above 20 percent requires Component-designated approval The authorized range (for example, 6–20 percent increase for promotions) must be compared to the limits of the new pay band. In many cases, the minimum or maximum change may be affected by the band limits, simplifying the decision process. Maria's promotion pay must be set, at a minimum, to the minimum of the YA-3 pay band, or $89,984. This would be a 15.4 percent increase.
What are the organization norms for such increases? What has been offered in the past? What do employees expect?	The normal promotion is 8 percent, but higher percentages have been given in the past.
What is the candidate's experience	She has 10 years of experience in computer

Question	Answer
level—years of experience, breadth, depth, and scope of duties, responsibilities, and complexity of previous work?	software development and is thoroughly grounded in state-of-the-art technologies.
What training, licenses, or certifications does the candidate possess? Are these important to the organization and/or critical for the position?	MCSE certification, Oracle Developer certification. This position requires MCSE certification.
What is the candidate's education level? Is education important to the organization and/or critical for the position?	She has a master's degree in systems engineering and education is important for this position.
What are the salaries of your current employees in similar positions? If the new hire salary was higher or lower, would the resulting difference be acceptable? What are the salaries of any subordinates?	The salaries of other employees performing similar duties and/or in similar level positions are: • Employee 1 = $110,000 • Employee 2 = $93,998 • Employee 3 = $99,033 • Employee 4 = $120,310 We would like to try and keep the salaries within the range for the position ($94,000 to $120,000).

Salary Decision

The organization decides that Maria's salary will be set at $94,000, an increase to her base salary of 20.5 percent. This salary is in line with other employees in similar positions with similar experience in the organization. In this organization, a salary increase over 20 percent must be approved by the commander.

Example 2 - Reassignment

An organization has a vacancy for a YA-2210-3 Information Technology Specialist. This position is supervised by the chief information officer, who is also a YA-3. The organization can use the answers in example A to determine an appropriate salary range for the position.

The organization announced the position and after reviewing 25 applications and conducting several interviews, the hiring manager decides the best candidate is an existing YA-3 IT specialist, Samantha, who works in a different part of the organization. This position is a reassignment for Samantha since she is already a YA-3 IT specialist. To help set Samantha's salary, the supervisor asks the following questions.

Question	Answer
What is the candidate's current salary level?	Samantha is a YA-3 and currently earns $95,000.
What are the DoD, Component, and higher headquarters controls on salary setting for promotions, reassignments, and reductions in band? What is the authorized range of increases that can be offered?	The organization can offer up to 5 percent for a reassignment.
What are the organization norms for such increases? What has been offered in the past? What do employees expect?	The organization has reassigned four employees under NSPS, and all four have received some increase in pay ranging from three to five percent.
What is the candidate's experience level—years of experience, breadth, depth, and scope of duties, responsibilities, and complexity of previous work?	Samantha is a seasoned professional with more than 10 years of experience. In her current position with the organization, she has exhibited the knowledge and skills to excel in the new position.
What training, licenses, or certifications does the candidate possess? Are these important to the organization and/or critical for the position?	n/a
What is the candidate's education level? Is education important to the organization and/or critical for the position?	Samantha has a master's degree in computer science.
What are the salaries of your current employees in similar positions? If the new hire salary was higher or lower, would the resulting difference be supportable?	The salaries of other employees performing similar duties and/or in similar level positions are: • Employee 1 = $110,000 • Employee 2 = $93,998 • Employee 3 = $99,033 • Employee 4 = $120,310 The manager would like to try and keep the

Question	Answer
	salaries within the range for the position ($94,000 to $120,000).

Salary Decision

The organization decides to give Samantha a five percent reassignment increase, which will increase her base salary to $99,750. Samantha was unsure if she wanted to take the new position, and the salary increase provided the incentive she needed to accept the new assignment.

Appendix G – Compensation Decisions and Business Rules Template

Compensation Management Strategy
Insert your strategy (*see page 8, "Understanding Compensation Management Principles Under NSPS"*):

Salary Ranges
(that apply to positions in my organization and are other than the NSPS pay schedules)

Pay schedule/pay band:

Pay band minimum:

Pay band maximum:

Salary range minimum:

Salary range maximum:

Salary range applies to the following groups of employees:

Rationale for salary range:

Decisions and Business Rules	
Pay Setting	
New Hires Salary (External)	The criteria for new hire salary amounts are: Promotions will be (between):
Promotions	The criteria for promotion amounts are: Promotions will be (between):
Reassignments	The criteria for reassignment increases are: Reassignments increases may be given up to:
Reductions in band	The criteria for reductions in band increases are: Reductions in band increases may be given up to:
Accelerated Compensation for Developmental Employees (ACDP)	The criteria for ACDPs are: ACDPs may be given in the form of: ACDPs may be given up to:
Others?	

Performance-based Pay	
Share Assignment	Share assignments will be based on: (see sample factors on the next page)
Payout Distribution	Payout distribution will be based on: (see sample factors on the next page)
Extraordinary Pay Increase (EPI)	The criteria for giving an EPI is: The amount of the EPI can be: The EPI can be given in the form of a:
Organizational/Team Achievement Recognition (OAR)	The criteria for giving an OAR is: The amount of the OAR can be: The OAR can be given in the form of a:
Incentive Awards (Special act, time-off, and others)	The criteria for giving an incentive award is: The amount of the award can be (between):
Incentive Award Funding	The amount of funding for incentive awards this year is:
Pay Pool Funding	The pay pool funding this year is:
Control Points	The control points for this organization/pay pool are: The rationale for each control point is:
Others?	

Sample Factors for Determining Share Assignment and Payout Split

- Complexity of the work
- Un-rounded rating (that is, 3.75 versus 3.25)
- Impact of the selected contributing factors
- Employee's position in salary range
- Employee's salary in relation to other employees in similar positions
- Employee's overall contribution to mission success
- Recent salary increases (reassignment or promotion)
- Previous year's payout split
- Control points
- Recent incentive or honorary awards (especially monetary) received during this performance period
- Funding
- Criticality of position or skill set
- Other